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- **12 CFR Part 624**
- **RIN: 3052-AC69**
- **Margin and Capital Requirements for Covered Swap Entities**

Dear Sir,

Thank you for giving us the opportunity to comment on your notice of proposed rulemaking: Margin and Capital Requirements for Covered Swap Entities.

The OCC, Board, FDIC, FCA, and FHFA (collectively, the Agencies) are requesting comment on a proposal to establish minimum margin and capital requirements for registered swap dealers, major swap participants, security-based swap dealers, and major security-based swap participants (covered swap entities) for which one of the Agencies is the prudential regulator.

I generally support your principles-based proposal, which would apply to uncleared swaps entered into after the date the regulation comes into force. I will make some general comments on the main issues.

Capital requirements

I agree that a covered swap entity should continue to comply with the regulatory capital rules that already apply to that covered swap entity as part of its prudential regulatory regime. However I look forward to the implementation of Basel III, which looks to focus more regulatory oversight on uncleared positions, and which suggests that higher capital requirements should apply here.¹

¹ Please see www.bis.org/publ/bcbs189.pdf for further information.

Margin requirements

I support the proposal to allow covered swap entities to use approved internal models to calculate the initial margining requirements, subject to a fallback option, which should be based on a table of standardised initial margin requirements. This is very much the way to go,² and will surely spur covered swap entities to develop and use the more risk-accurate internal models compared to such standardised approach.

I also agree with the approach proposed for calculating variation margins, which would allow for aggregating transactions entered into with a counterparty under a qualifying master netting agreement. This is entirely appropriate.

Under proposed § __.5 Documentation of margin matters, a covered swap entity would be required to maintain documentation on the “methods, procedures, rules, and inputs for determining the value of each swap or security-based swap for purposes of calculating variation margin requirements”. Although the proposal does not prescribe a specific valuation method, the agreed methods, procedures, rules and inputs should be required to constitute a complete and independently verifiable methodology for valuing each swap or security-based swap transaction entered into between the relevant parties. I believe that this would increase transparency, operational efficiency and assist in the early and objective resolution of swap and security-based swap valuation disputes.

Summary

In summary, I welcome your proposal. I agree with the principles-based approach that you have taken here. I would only specifically recommend that you should require any swap or security-based swap valuation methodology to constitute a complete and independently verifiable methodology for the purposes of margining, and to assist in the objective resolution of valuation disputes.

Yours faithfully

Chris Barnard

² Similar to the approach adopted by Basel for banks, and e.g. Solvency II for European insurers.